

Evaluating Overhead Savings During Source Selections



Capt Bill Ward

Air Force Institute of Technology

Wright-Patterson AFB

2 February 01

OVERVIEW

- Best Value
- Overhead Savings
- Prior Source Selection Evaluations
- Conclusion

Best Value

- 4 Levels of Evaluated Cost
 - Proposal Price
 - Direct Costs
 - Indirect Costs
 - Dollarization of Overhead Savings
 - Other Strengths/Weaknesses/Risks

Overhead Rates

- Overhead rates
 - Cost pool divided by specified allocation base (labor hours, machine hours, etc)

- Changes to Overhead rates
 - If allocation base increases at a greater rate than the cost pool, then overhead rates will decrease

Overhead Savings

- During source selections, bidders can receive proposal credit for overhead savings if the addition of the new workload results in savings to the existing workload
- Overhead Savings
 - $\text{Old rate} - \text{new rate} * \text{existing workload}$

Overhead Savings

Before New Work

- Cost Pool
 - \$1000
- Labor Hours
 - 100
- Overhead Rate
 - \$10/hr

After New Work

- Cost Pool
 - \$1200
- Labor Hours
 - 150
- Overhead Rate
 - \$8/hr

$$\text{Overhead Savings} = (\$10 - \$8) * 100 = \$200$$

Background

- Overhead Savings have been evaluated in several recent Public-Private Competitions
 - C-5 Maintenance Competition
 - Sacramento ALC Competition
 - Propulsion Business Area Competition

Policy Guideline

- “An adjustment shall be made to each public or private contract proposal price for identified and reasonable overhead costs/savings to other government workloads performed by the offeror that would be realized during contract performance”

» 20 Dec 97 from SAF AQ/FM

C-5 Maintenance Competition

- Workload for Annual C-5 Overhaul
 - \$750M over 7 yrs
- Public Bidder - Warner-Robins ALC
- Winner - Warner-Robins ALC
- Overhead Savings was the determining factor

C-5 Maintenance Competition

- Used Overhead Rate Impact (ORI) Model
 - Also known as “GAO” model
 - Used in 1996 GAO report to evaluate depot excess capacity

			OVERHEAD RATE IMPACT MODEL				
FY98 DPAH	6,000,000.0						
Added Workload - Similar	1,000,000.0						
Total FY98 Workload (+ New)	7,000,000.0						
			Rate Impact Calculations				
					Added		
		FY98	% Variable	Rate	Hours to		
	FY98 Costs	Rate	Similar Wkld	Similar Wkld	Similar Wkld	Costs to	Totals
DIRECT							
<i>Total Direct</i>	\$ 167,250,000	\$27.88	100.00%	\$27.88	1,000,000	\$27,875,000	\$195,125,000
PRODUCTION OVERHEAD							
INDIRECT							
Indirect Civilian Labor	\$ 26,778,000	\$4.46	70.00%	\$3.12	1,000,000	\$ 3,124,100	\$ 29,902,100
Indirect Military Labor	\$ 72,000	\$0.01	0.00%	\$0.00	1,000,000	\$ -	\$ 72,000
Ind Material U6100	\$ 12,360,000	\$2.06	100.00%	\$2.06	1,000,000	\$ 2,060,000	\$ 14,420,000
Ind Material U6300	\$ 2,970,000	\$0.50	0.00%	\$0.00	1,000,000	\$ -	\$ 2,970,000
Engine Fuel U6511	\$ -	\$0.00	100.00%	\$0.00	1,000,000	\$ -	\$ -
Equip U66/80	\$ 1,080,000	\$0.18	100.00%	\$0.18	1,000,000	\$ 180,000	\$ 1,260,000
Indirect Other Expense	\$ 5,586,000	\$0.93	79.00%	\$0.74	1,000,000	\$ 735,490	\$ 6,321,490
<i>Total Indirect</i>	\$ 48,846,000	\$8.14		\$6.10	1,000,000	\$ 6,099,590	\$ 54,945,590
							\$ -
SHOP SUPPORT							\$ -
<i>Total Shop Support</i>	\$156,018,000	\$26.00		\$7.56	1,000,000	\$ 7,560,800	\$163,578,800
							\$ -
Total Production Overhead	\$204,864,000	\$34.14		\$13.66		\$13,660,390	\$218,524,390
							\$ -
GENERAL & ADMINISTRATION							\$ -
<i>Total General & Administration</i>	\$ 31,842,000	\$5.31		\$0.14		\$ 140,250	\$ 31,982,250
							\$ -
						\$13,800,640	\$ 13,800,640
TOTAL EXPENSE RATE/DPAH	\$403,956,000	\$67.33				\$41,675,640	\$445,631,640
			Wrap				
	Costs	Hours	Rate	Direct	Prod O/H	G&A	
FY 98 Without New Workload (DPAH)	\$403,956,000	6,000,000	\$67.33	\$ 27.88	\$ 34.14	\$ 5.31	
FY 98 With New Workload (DPAH)	\$445,631,640	7,000,000	\$63.66	\$ 27.88	\$ 31.22	\$ 4.57	
	O/H hourly rate without C-5			\$ 39.45			
	O/H hourly rate with C-5			\$ 35.79			
	O/H hourly rate savings			\$ 3.66			
	O/H Savings resulting from C-5 wkld			\$21,986,023			

			OVERHEAD RATE IMPACT MODEL				
FY98 DPAH	6,000,000.0						
Added Workload - Similar	1,000,000.0						
Total FY98 Workload (+ New)	7,000,000.0						
			Rate Impact Calculations				
		FY98	% Variable	Rate	Added		
		Rate	Similar Wkld	Similar Wkld	Hours to		
	FY98 Costs	Rate			Similar Workload	Costs to	Totals
DIRECT							
<i>Total Direct</i>	\$ 167,250,000	\$27.88	100.00%	\$27.88	1,000,000	\$27,875,000	\$195,125,000
PRODUCTION OVERHEAD							
INDIRECT							
Indirect Civilian Labor	\$ 26,778,000	\$4.46	70.00%	\$3.12	1,000,000	\$ 3,124,100	\$ 29,902,100
Indirect Military Labor	\$ 72,000	\$0.01	0.00%	\$0.00	1,000,000	\$ -	\$ 72,000
Ind Material U6100	\$ 12,360,000	\$2.06	100.00%	\$2.06	1,000,000	\$ 2,060,000	\$ 14,420,000
Ind Material U6300	\$ 2,970,000	\$0.50	0.00%	\$0.00	1,000,000	\$ -	\$ 2,970,000
Engine Fuel U6511	\$ -	\$0.00	100.00%	\$0.00	1,000,000	\$ -	\$ -
Equip U66/80	\$ 1,080,000	\$0.18	100.00%	\$0.18	1,000,000	\$ 180,000	\$ 1,260,000
Indirect Other Expense	\$ 5,586,000	\$0.93	79.00%	\$0.74	1,000,000	\$ 735,490	\$ 6,321,490
<i>Total Indirect</i>	\$ 48,846,000	\$8.14		\$6.10	1,000,000	\$ 6,099,590	\$ 54,945,590
							\$ -
SHOP SUPPORT							\$ -
<i>Total Shop Support</i>	\$156,018,000	\$26.00		\$7.56	1,000,000	\$ 7,560,800	\$163,578,800
							\$ -
Total Production Overhead	\$204,864,000	\$34.14		\$13.66		\$13,660,390	\$218,524,390
							\$ -
GENERAL & ADMINISTRATION							\$ -
<i>Total General & Administration</i>	\$ 31,842,000	\$5.31		\$0.14		\$ 140,250	\$ 31,982,250
							\$ -
						\$13,800,640	\$ 13,800,640
TOTAL EXPENSE RATE/DPAH	\$403,956,000	\$67.33				\$41,675,640	\$445,631,640
			Wrap				
	Costs	Hours	Rate	Direct	Prod O/H	G&A	
FY 98 Without New Workload (DPAH)	\$403,956,000	6,000,000	\$67.33	\$ 27.88	\$ 34.14	\$ 5.31	
FY 98 With New Workload (DPAH)	\$445,631,640	7,000,000	\$63.66	\$ 27.88	\$ 31.22	\$ 4.57	
	O/H hourly rate without C-5			\$ 39.45			
	O/H hourly rate with C-5			\$ 35.79			
	O/H hourly rate savings			\$ 3.66			
	O/H Savings resulting from C-5 wkld			\$21,986,023			

			OVERHEAD RATE IMPACT MODEL				
FY98 DPAH	6,000,000.0						
Added Workload - Similar	1,000,000.0						
Total FY98 Workload (+ New)	7,000,000.0						
			Rate Impact Calculations				
					Added		
		FY98	% Variable	Rate	Hours to		
	FY98 Costs	Rate	Similar Wkld	Similar Wkld	Similar Workload	Costs to	Totals
DIRECT							
<i>Total Direct</i>	\$167,250,000	\$27.88	100.00%	\$27.88	1,000,000	\$27,875,000	\$195,125,000
PRODUCTION OVERHEAD							
INDIRECT							
Indirect Civilian Labor	\$ 26,778,000	\$4.46	70.00%	\$3.12	1,000,000	\$ 3,124,100	\$ 29,902,100
Indirect Military Labor	\$ 72,000	\$0.01	0.00%	\$0.00	1,000,000	\$ -	\$ 72,000
Ind Material U6100	\$ 12,360,000	\$2.06	100.00%	\$2.06	1,000,000	\$ 2,060,000	\$ 14,420,000
Ind Material U6300	\$ 2,970,000	\$0.50	0.00%	\$0.00	1,000,000	\$ -	\$ 2,970,000
Engine Fuel U6511	\$ -	\$0.00	100.00%	\$0.00	1,000,000	\$ -	\$ -
Equip U66/80	\$ 1,080,000	\$0.18	100.00%	\$0.18	1,000,000	\$ 180,000	\$ 1,260,000
Indirect Other Expense	\$ 5,586,000	\$0.93	79.00%	\$0.74	1,000,000	\$ 735,490	\$ 6,321,490
<i>Total Indirect</i>	\$ 48,846,000	\$8.14		\$6.10	1,000,000	\$ 6,099,590	\$ 54,945,590
							\$ -
SHOP SUPPORT							\$ -
<i>Total Shop Support</i>	\$156,018,000	\$26.00		\$7.56	1,000,000	\$ 7,560,800	\$163,578,800
							\$ -
<i>Total Production Overhead</i>	\$204,864,000	\$34.14		\$13.66		\$13,660,390	\$218,524,390
							\$ -
GENERAL & ADMINISTRATION							\$ -
<i>Total General & Administration</i>	\$ 31,842,000	\$5.31		\$0.14		\$ 140,250	\$ 31,982,250
							\$ -
						\$13,800,640	\$ 13,800,640
TOTAL EXPENSE RATE/DPAH	\$403,956,000	\$67.33				\$41,675,640	\$445,631,640
	<u>Costs</u>	<u>Hours</u>	<u>Wrap Rate</u>	<u>Direct</u>	<u>Prod O/H</u>	<u>G&A</u>	
FY 98 Without New Workload (DPAH)	\$403,956,000	6,000,000	\$67.33	\$ 27.88	\$ 34.14	\$ 5.31	
FY 98 With New Workload (DPAH)	\$445,631,640	7,000,000	\$63.66	\$ 27.88	\$ 31.22	\$ 4.57	
	O/H hourly rate without C-5			\$ 39.45			
	O/H hourly rate with C-5			\$ 35.79			
	O/H hourly rate savings			\$ 3.66			
	O/H Savings resulting from C-5 wkld			\$21,986,023			

					Added		
		FY98	% Variable	Rate	Hours to		
	FY98 Costs	Rate	Similar Wkld	Similar Wkld	Similar Workload	Costs to	Totals
PRODUCTION OVERHEAD							
INDIRECT							
Indirect Civilian Labor	\$ 26,778,000	\$4.46	70.00%	\$3.12	1,000,000	\$ 3,124,100	\$ 29,902,100
Indirect Military Labor	\$ 72,000	\$0.01	0.00%	\$0.00	1,000,000	\$ -	\$ 72,000
Ind Material U6100	\$ 12,360,000	\$2.06	100.00%	\$2.06	1,000,000	\$ 2,060,000	\$ 14,420,000

- Indirect Civilian Labor has an existing OH rate of \$4.46.
- Since new workload is 70% variable, new rate is $\$4.46 * .7 = \3.13
- Indirect Military Labor is 0% variable, so costs do not change
- Indirect Material is 100% variable, so rate does not change.

OVERHEAD RATE IMPACT MODEL							
FY98 DPAH	6,000,000.0						
Added Workload - Similar	1,000,000.0						
Total FY98 Workload (+ New)	7,000,000.0						
Rate Impact Calculations							
		FY98	% Variable	Rate	Added		
	FY98 Costs	Rate	Similar Wkld	Similar Wkld	Hours to	Costs to	Totals
DIRECT							
<i>Total Direct</i>	\$ 167,250,000	\$27.88	100.00%	\$27.88	1,000,000	\$27,875,000	\$195,125,000
PRODUCTION OVERHEAD							
INDIRECT							
Indirect Civilian Labor	\$ 26,778,000	\$4.46	70.00%	\$3.12	1,000,000	\$ 3,124,100	\$ 29,902,100
Indirect Military Labor	\$ 72,000	\$0.01	0.00%	\$0.00	1,000,000	\$ -	\$ 72,000
Ind Material U6100	\$ 12,360,000	\$2.06	100.00%	\$2.06	1,000,000	\$ 2,060,000	\$ 14,420,000
Ind Material U6300	\$ 2,970,000	\$0.50	0.00%	\$0.00	1,000,000	\$ -	\$ 2,970,000
Engine Fuel U6511	\$ -	\$0.00	100.00%	\$0.00	1,000,000	\$ -	\$ -
Equip U66/80	\$ 1,080,000	\$0.18	100.00%	\$0.18	1,000,000	\$ 180,000	\$ 1,260,000
Indirect Other Expense	\$ 5,586,000	\$0.93	79.00%	\$0.74	1,000,000	\$ 735,490	\$ 6,321,490
<i>Total Indirect</i>	\$ 48,846,000	\$8.14		\$6.10	1,000,000	\$ 6,099,590	\$ 54,945,590
							\$ -
SHOP SUPPORT							\$ -
<i>Total Shop Support</i>	\$156,018,000	\$26.00		\$7.56	1,000,000	\$ 7,560,800	\$163,578,800
							\$ -
Total Production Overhead	\$204,864,000	\$34.14		\$13.66		\$13,660,390	\$218,524,390
							\$ -
GENERAL & ADMINISTRATION							\$ -
Total General & Administration	\$ 31,842,000	\$5.31		\$0.14		\$ 140,250	\$ 31,982,250
							\$ -
						\$13,800,640	\$ 13,800,640
TOTAL EXPENSE RATE/DPAH	\$403,956,000	\$67.33				\$41,675,640	\$445,631,640
			Wrap				
	Costs	Hours	Rate	Direct	Prod O/H	G&A	
FY 98 Without New Workload (DPAH)	\$403,956,000	6,000,000	\$67.33	\$ 27.88	\$ 34.14	\$ 5.31	
FY 98 With New Workload (DPAH)	\$445,631,640	7,000,000	\$63.66	\$ 27.88	\$ 31.22	\$ 4.57	
	O/H hourly rate without C-5			\$ 39.45			
	O/H hourly rate with C-5			\$ 35.79			
	O/H hourly rate savings			\$ 3.66			
	O/H Savings resulting from C-5 wkld			\$21,986,023			

			Wrap			
	<u>Costs</u>	<u>Hours</u>	<u>Rate</u>	<u>Direct</u>	<u>Prod O/H</u>	<u>G&A</u>
FY 98 W/O New Workload	\$ 403,956,000	6,000,000	\$67.33	\$ 27.88	\$ 34.14	\$ 5.31
FY 98 With New Workload	\$ 445,631,640	7,000,000	\$63.66	\$ 27.88	\$ 31.22	\$ 4.57
Production OH W/O C-5	\$ 204,864,000					
Production OH With C-5	\$ 218,524,390					
	O/H hourly rate without C-5			\$ 39.45		
	O/H hourly rate with C-5			\$ 35.79		
	O/H hourly rate savings			\$ 3.66		
	O/H Savings resulting from C-5 wkld			\$ 21,986,023		

OH rate without C-5 workload is $\$204,864,000 / 6,000,000 = \34.14

OH rate with C-5 workload is $\$218,524,390 / 7,000,000 = \31.22

			OVERHEAD RATE IMPACT MODEL				
FY98 DPAH	6,000,000.0						
Added Workload - Similar	1,000,000.0						
Total FY98 Workload (+ New)	7,000,000.0						
			Rate Impact Calculations				
					Added		
		FY98	% Variable	Rate	Hours to		
	FY98 Costs	Rate	Similar Wkld	Similar Wkld	Similar Wkld	Costs to	Totals
DIRECT							
<i>Total Direct</i>	\$ 167,250,000	\$27.88	100.00%	\$27.88	1,000,000	\$27,875,000	\$195,125,000
PRODUCTION OVERHEAD							
INDIRECT							
Indirect Civilian Labor	\$ 26,778,000	\$4.46	70.00%	\$3.12	1,000,000	\$ 3,124,100	\$ 29,902,100
Indirect Military Labor	\$ 72,000	\$0.01	0.00%	\$0.00	1,000,000	\$ -	\$ 72,000
Ind Material U6100	\$ 12,360,000	\$2.06	100.00%	\$2.06	1,000,000	\$ 2,060,000	\$ 14,420,000
Ind Material U6300	\$ 2,970,000	\$0.50	0.00%	\$0.00	1,000,000	\$ -	\$ 2,970,000
Engine Fuel U6511	\$ -	\$0.00	100.00%	\$0.00	1,000,000	\$ -	\$ -
Equip U66/80	\$ 1,080,000	\$0.18	100.00%	\$0.18	1,000,000	\$ 180,000	\$ 1,260,000
Indirect Other Expense	\$ 5,586,000	\$0.93	79.00%	\$0.74	1,000,000	\$ 735,490	\$ 6,321,490
<i>Total Indirect</i>	\$ 48,846,000	\$8.14		\$6.10	1,000,000	\$ 6,099,590	\$ 54,945,590
							\$ -
SHOP SUPPORT							\$ -
<i>Total Shop Support</i>	\$156,018,000	\$26.00		\$7.56	1,000,000	\$ 7,560,800	\$163,578,800
							\$ -
<i>Total Production Overhead</i>	\$204,864,000	\$34.14		\$13.66		\$13,660,390	\$218,524,390
							\$ -
GENERAL & ADMINISTRATION							\$ -
<i>Total General & Administration</i>	\$ 31,842,000	\$5.31		\$0.14		\$ 140,250	\$ 31,982,250
							\$ -
						\$13,800,640	\$ 13,800,640
TOTAL EXPENSE RATE/DPAH	\$403,956,000	\$67.33				\$41,675,640	\$445,631,640
			Wrap				
	Costs	Hours	Rate	Direct	Prod O/H	G&A	
FY 98 Without New Workload (DPAH)	\$403,956,000	6,000,000	\$67.33	\$ 27.88	\$ 34.14	\$ 5.31	
FY 98 With New Workload (DPAH)	\$445,631,640	7,000,000	\$63.66	\$ 27.88	\$ 31.22	\$ 4.57	
	O/H hourly rate without C-5			\$ 39.45			
	O/H hourly rate with C-5			\$ 35.79			
	O/H hourly rate savings			\$ 3.66			
	O/H Savings resulting from C-5 wkld			\$21,986,023			

C-5 Maintenance Competition ORI Model

➤ Strengths

- Easy
- Fast

➤ Weaknesses

- Only good for top-level analysis
- Rates not connected to bid
- Assumes same indirect cost pools across all programs
- Inputs for % Variable factor questionable

Lessons Learned from C-5 Competition

- Top level analysis did not provide accurate enough information
- Looking for a more detailed analysis in future source selections
- Validity of out-years savings is questionable
 - C-5 allowed savings for full term of contract
 - How long would excess capacity exist

Sacramento ALC Competition

- Workload for KC-135, Hydraulics, assorted A/C parts
 - \$2B over 8 yrs
- Public Bidder - Hill AFB (Ogden ALC)
- RFP stated that offeror had to provide detailed analysis
- Offeror also has to show history of reduced OH rates due to increased workload

Sacramento ALC Competition

- Initially used top level model similar to ORI model
 - Same fixed vs. variable rate analysis
 - Source Selection team refuted this approach
- Offeror proposed new approach
 - Conducted regression analysis to predict the OH cost pools

Sacramento ALC Competition

- Used regression results to predict new rates
- New rates integrated into actual proposal
- Discounted out-year savings

Overhead And G&A Pools

PRODUCTION OVERHEAD.

- Shop Support Labor (100% Fixed)
- Shop Support Depreciation (100%)
- Indirect Material (0%)
- Fuel (0%)
- Shop Support Equipment (35%)
- Shop Support Other (80%)
- Indirect Labor (30%)
- Indirect Other (50%)
- Defective Work/Spoilage (10%)
- Hazardous Materials (25%)
- Misc Material (50%)
- Example is MNI, claims 73% Fixed.

G&A POOL

- Civilian labor (35%)*
- Fringes (16%)
- Materials (5.5%)
- Other (43%)
- Depreciation (0.5%)

* Percent of Pool

Range of POH & GA Savings

Production Overhead

\$151,295,456
(Offeror A proposal submission of overhead savings)

\$34,079,217
100/66/33

\$29,999,710
100/50/25

\$25,686,897
75/50/25

\$12,911,765
50/25/00

G&A

\$71,795,535

\$36,277,972
100/90/80/70 . . 70

\$30,216,440
100/90/80 20

\$20,530,832
100/75/50/25 . . . 25

\$17,527,284
100/80/60/40/20/00

\$14,650,773
100/75/50/25/00

\$11,754,072
100/66/33/00

(100/66/33) represents percentage reduction from first year savings (FY00).

POH savings limited to first three years of steady state (FY00-02).

G&A savings allocated over full contract (8 years) if applicable.

Sacramento ALC Competition

Methodology

➤ **Strengths**

- More in-depth
- Integrated discounting of out-year savings

➤ **Weaknesses**

- Analysis conducted at too high a level
- Did not provide a “bottoms up” approach to building rates
- Regression based on past decreases does not address current capacity issues
- Technical evaluation failed to confirm cost model in some areas

Lessons Learned from Sacramento ALC Competition

- Analysis still conducted at too high a level
- Costs should be analyzed at RC/CC or shop level
- Analysis was better than that in the C-5 Competition, but still not accurate enough

Propulsion Business Area Competition

- Workload for AF jet engine overhauls
 - \$12B over 15 yrs
- Public Bidder - Tinker AFB (OKC ALC)

Propulsion Business Area Competition

- Analysis conducted using engineering build-up at the individual RC/CCs
 - Credibility greatly increased
- Savings discounted in out-years

Production Overhead Savings

	<u>Scenario 1</u>	<u>Scenario 2</u>	<u>Scenario 3</u>	<u>Scenario 4</u>
<u>Production Overhead</u>				
Labor	\$69,642,257	\$61,590,658	\$58,380,182	\$52,619,506
Material	\$814,060	\$721,408	\$683,422	\$615,261
Other	<u>\$50,429,159</u>	<u>\$44,673,703</u>	<u>\$42,346,363</u>	<u>\$38,170,339</u>
Total	\$120,885,476	\$106,985,769	\$101,409,967	\$91,405,106

Scenario 1: Savings begin in FY99. Savings are not discounted..

Scenario 2: Savings begin in FY00. Savings diminish 2% a year through FY13.

Savings in FY13 are 78% of full savings amount.

Scenario 3: Savings begin in FY00. Savings diminish 3% a year through FY13.

Savings in FY13 are 69% of full savings amount.

Scenario 4: Savings begin in FY00. Savings diminish 5% a year through FY13.

Savings in FY13 are 54% of full savings amount.

G&A Savings

	<u>Scenario 1</u>	<u>Scenario 2</u>	<u>Scenario 3</u>	<u>Scenario 4</u>
<u>General & Administrative</u>				
Labor	\$38,188,802	\$34,216,596	\$32,437,939	\$29,246,446
Material	\$2,730	\$2,446	\$2,318	\$2,090
Other	<u>\$51,540,650</u>	<u>\$46,176,831</u>	<u>\$43,775,043</u>	<u>\$39,465,450</u>
Total	\$89,732,182	\$80,395,873	\$76,215,300	\$68,713,987

Scenario 1: Savings begin in FY99. Savings are not discounted..

Scenario 2: Savings begin in FY99. Savings diminish 2% a year through FY13.

Savings in FY13 are 78% of full savings amount.

Scenario 3: Savings begin in FY99. Savings diminish 3% a year through FY13.

Savings in FY13 are 69% of full savings amount.

Scenario 4: Savings begin in FY99. Savings diminish 5% a year through FY13.

Savings in FY13 are 54% of full savings amount.

Propulsion Business Area Competition

➤ **Strengths**

- Grass-roots build-up much more accurate
- Discounting of savings considered

➤ **Weaknesses**

- No data to support discounting

Overhead Savings Impact on Source Selections

	C-5	SAC ALC	PBA
OH Savings	\$160M	\$25M-\$70M	\$160.1M-\$210.6M
Total Eval Cost	\$300M	\$1.74B-\$1.79B	\$10.22B-\$10.76B
% of Baseline Cost	35%	2% - 4%	1% - 2%
Factor in Outcome	Yes	No	Maybe

Conclusions

- Source Selection teams need an accurate, detailed model to evaluate overhead savings
- Model must be integrated with the actual proposal costs
- A study of these 3 cases is necessary to determine actual achieved savings

Summary

- Researched concept of overhead savings & how it fits in to best value source selections
- Case study analysis of the methodology used in three recent source selections involving overhead savings

Questions?